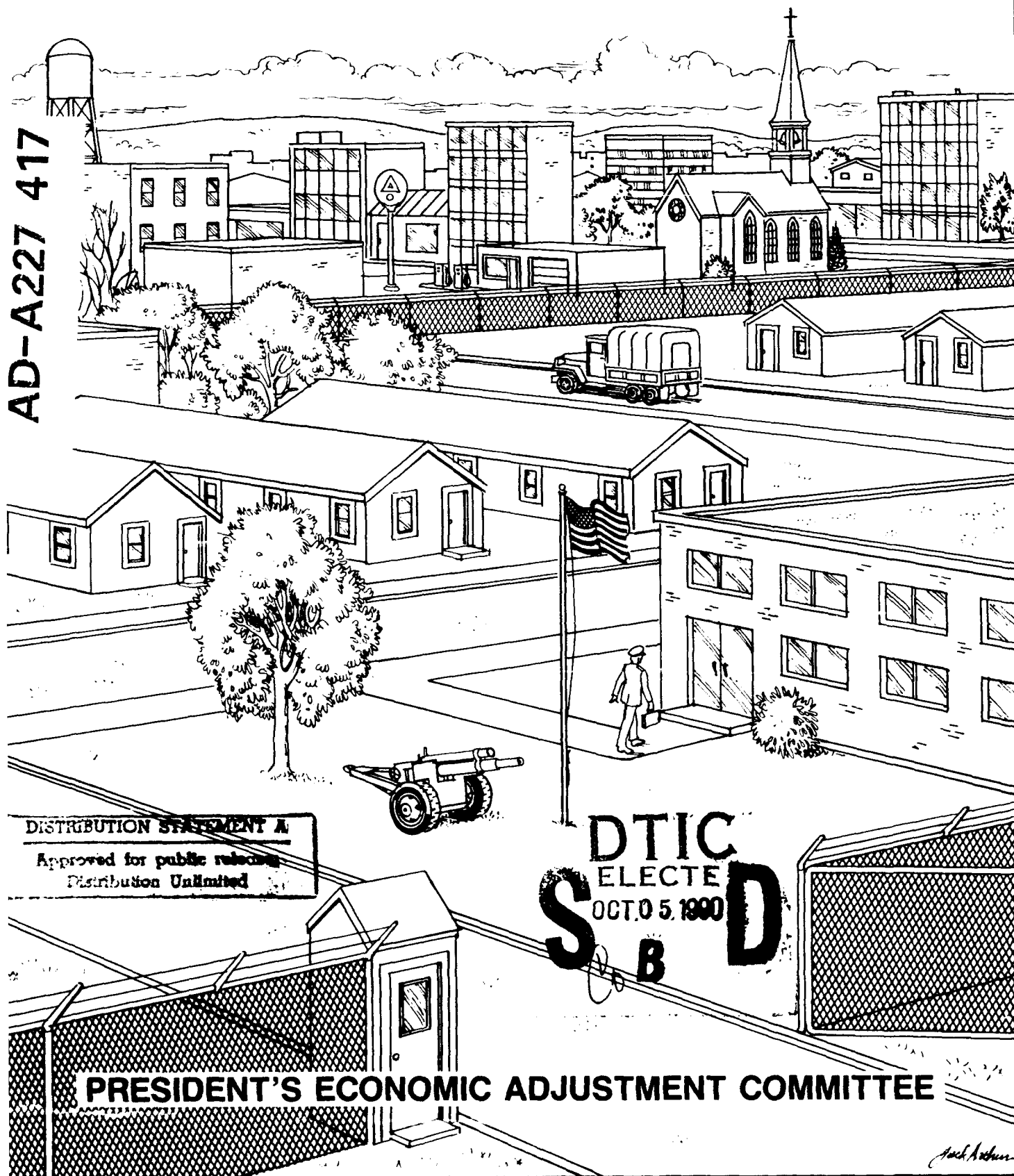


# DIVERSIFYING DEFENSE DEPENDENT COMMUNITIES

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PRESIDENT'S ECONOMIC ADJUSTMENT COMMITTEE

Arch. Arthur

**DIVERSIFYING**  
**DEFENSE DEPENDENT COMMUNITIES**



**Community Guidance Manual XI**

**NOVEMBER 1989**

**Report Prepared By:**

**President's Economic Adjustment Committee  
Office of Economic Adjustment  
Office of the Assistant Secretary of Defense  
(Force Management & Personnel)  
The Pentagon, Washington, D.C. 20301-4000**



THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D C 20301-4000

DE MANAGEMENT  
AND PERSONNEL

January 4, 1989

COMMUNITY REPRESENTATIVES

Since 1961, the Department of Defense's (DoD) Office of Economic Adjustment (OEA) has been working with communities significantly affected by changes in DoD activities. During that period, we have published a series of Community Guidance Manuals as a way of quickly and informally providing information about community economic adjustment.

Even the most vibrant communities suffer at least short-term employment and revenue losses when DoD-related (or other dominant) sources of local jobs suddenly decline. DoD's expenditures for personnel, weapons systems, and base operations are always subject to change.

"Diversifying Defense Dependent Communities" was prepared for leaders of communities where DoD activities represent significant portions of the local employment and other critical fiscal bases. By surveying five of the available methods of local economic diversification, it is a guide for communities wishing to preempt negative local impacts caused by a future DoD-related cutback.

Further, although a DoD-related decline may never occur, a diversified local economy will be better able to withstand other important disruptions from natural disasters, declines within an industry, and national/world-wide economic difficulties.

OEA operates as the staff to the President's Economic Adjustment Committee (EAC), composed of 18 federal government agencies. OEA and EAC are available to support your community's economic diversification efforts.

*Robert M. Rauner*

Robert M. Rauner  
Director  
Office of Economic Adjustment

## ACKNOWLEDGEMENTS

This Community Guidance Manual was prepared from the experiences of the staff of the Department of Defense's Office of Economic Adjustment (OEA) and from the published work submitted by the five institutions surveyed in it.

Kenneth Matzkin (OEA) is the primary author. Essential guidance and editorial aid was received from Charles Minshall (Battelle Columbus Laboratories), William Whitehead (PHH Fantus Corporation), Jack Wimer (Midwest Research Institute), Lay J. Gibson (University of Arizona), and Glen Pulver (University of Wisconsin).

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## EXECUTIVE SUMMARY

Communities dependent on one (or a very few) employer(s) for their vitality are unnecessarily vulnerable to sudden and uncontrollable economic distress. In northeastern towns where the textile industry flourished during the last century, and in western towns where until recently oil and mining were thriving growth industries, "booms" have turned into "busts."

Department of Defense (DoD) installations are dominant employers in many small and rural places. Even robust communities that encountered a sudden and significant decline in nearby DoD installations in the past faced a trying period of adjustment before the impact was overcome. Although no significant realignments may now be foreseen in similar communities, they should use these "good times" to insulate themselves from the possible future shock of an unexpected decline in their employment and tax bases.

→ This report  
This Community Guidance Manual is one in a series prepared by the Office of Economic Adjustment (OEA) to provide communities neighboring DoD installations with helpful information pertinent to a variety of DoD-related circumstances. Unlike the previous manuals, this one can also be used readily by many communities (with undiversified economies) not hosting DoD activities.

OEA has selected five representative illustrations of how local leaders can affect healthy diversification of their community's economy. These methods were developed and are used independently of each other and DoD. The institutions that developed them represent the educational, not-for-profit, and for-profit sectors; and are listed below.

Illustrations are:  
Battelle Columbus Laboratories,  
PHH Fantus Corporation,  
Midwest Research Institute,  
University of Arizona,  
University of Wisconsin. (Appendix A: Illustrations of Community Impact)

Their individual approaches show some expected similarities. Each stresses the need to objectively analyze the nature of the local community and identify job producing enterprises that can operate profitably there. At the same time, each method also causes local experts to perform subjective analyses also aimed at finding these mutually compatible fits. However, each institution uses different tools to determine and array these complementary sets of data.

Battelle uses a multi-staged method screening process to find industries stored in its own data base that fit the community. Each factor is then rated against a perfect score to test their fit with the community. Fantus creates a sequenced strategic planning process identifying candidate industries that is then integrated into the community's overall economic development program. MRI has produced an electronic target industry analysis that automatically leads economic developers to likely industries to attract and develop locally. The University of Arizona relies on the Delphi Method of iterative surveys to lead community experts to logical conclusions about which industries might help diversify their community. The University of Wisconsin depends on an in-place network of developers to provide long-term support for local diversification efforts.

The approaches discussed in this manual should be applied only by qualified professionals. However, each requires primary participation by community representatives. Because of this, diversification plans generated by these processes are truly products of the people for whom they meant to assist.

## I. INTRODUCTION

### Background

The Office of Economic Adjustment was created in 1961 to aid communities facing significant changes at nearby Department of Defense (DoD) installations. Our experience in the 400 places where we have worked since then shows there are many reasonable ways to blunt the impact of threats to local economies.

Well conceived adjustment strategies have yielded positive results in communities where relatively large decreases in DoD population and jobs (uniformed, civil service, and contractor) occurred. Jobs lost were replaced most often with new ones created by the private sector, former DoD property went on the tax rolls for the first time, and the provision of public services eventually adjusted to new levels of demand. When relatively significant DoD-related growth occurred, a schedule of needed new facilities and services was created to ensure their availabilities as the population grew. When growth occurred, care was also taken to assess the fiscal impact on the local public sector to be sure that the new infrastructure could be adequately and reasonably financed.

Even very successfully operating communities were strained when forced into sudden changes. Most were not ready for them; but most of the communities' leadership met the challenge. During the periods of disruption and adjustment, communities' experiences ranged from reduced public revenues that weakened public services systems to the growth of public services that could not keep pace with the demand for them. But the crisis of sudden and severe change was their primary motivation to adapt. There are many success stories that show communities that are now better off for the short-term trauma they endured.<sup>6</sup>

Individual contexts for terms such as **significant**, **sudden**, and **disruption** are needed. To be a **significant** impact, the actual number of jobs lost must exceed some large proportion of all local jobs. Because of greater and more varied employment possibilities in a metropolis, a **significant** loss will be a higher percentage than that lost in a rural community. How fast is **sudden**? In this context, **sudden** refers to a timeframe too short for normally effective local assimilation and response. Such a period for a community with well coordinated leadership roles will be much shorter than for one with institutional conflicts and limited resources to quickly mitigate a reduction of local employment. And so, a **disruption** of the economy happens when the job loss is too large and too imminent for the community to prevent a harmful lessening of the tax and job bases. Again, the actual dangers posed by these effects are primarily determined by the community's ability to preempt them.



## **Diversification: What Is It and Who Needs It?**

Many communities reflect an economic vitality due to a strong DoD presence in their midst. They enjoy a peaceful and productive coexistence that evolved over time; mutual compatibility has become a welcome part of the landscape. Unfortunately, there is always the possibility that this arrangement can unexpectedly terminate through neither the wish nor direct action of either partner. Changes in technology, national security policy, foreign affairs concerns, and budget constraints are among the many contingencies that may eventually dissolve a working DoD/community partnership. Forward-looking community leaders can prepare for that eventuality by reducing the relative dominance of DoD programs in their communities. There will be benefits even if no DoD-related downturn comes.

Diversification of the local employment base is a form of economic development that can preempt socio-economic disruptions. In this way, no one job producing/tax paying community member's fortunes will unduly effect the other's. Conscientiously assessing the community's assets and limitations may produce the desired results for community leaders of improving local conditions for enterprises already operating in their area. As the diversification process progresses, it can then identify new and different activities to insulate the community from the effects of an errant shock. It typically involves attracting new employment activities to the community either through expansion or relocation, working with those already there so they expand, and helping to start new enterprises.

Diversification is not an automatic panacea for a stagnant economy. And healthy local economies driven primarily by one dominant employer (or two) may not necessarily be improved much by it either. Instead, the process of diversification should be applied in a thoughtful and tailored way by community leaders interested in surveying alternative futures.

The process of diversification is by its nature liberating. Alternatives to the community's current economic patterns should be sought and encouraged. And so the best approach is probably not a targeted effort to attract just one more major employer to the area. A variety of new activities--services, government, industrial, retailing, and others--should be objectively considered as candidates. At the same time, it is important to take the fullest advantage of the DoD facility's economic spin-off affects. But, just like whole communities, private enterprises profitably selling to a captive DoD market must also be wary of the dangers of too much reliance on one customer. Those firms can and should build on their business base with DoD to reach more and varied customers. This manual suggests some ways to do that.

## Purpose of this Manual

This Community Guidance Manual was prepared for use by those communities now enjoying productive relationships with DoD military facilities and/or plants making large amounts of DoD's supplies. No disruption of DoD activities is now anticipated in these communities. But their insulation from normal dynamic "market forces" has often served to atrophy their capacity to adjust to major structural changes that sometimes occur. The manual assumes that benefits will probably occur by evolving away from a dominant source of employment and tax base toward a more diversified array of economic activities. It suggests ways to do this and so reduce sharply the dangers to the community posed by a narrow dominance of the local labor market and economy.

Because economic impacts are relative in nature, we anticipate that most communities fitting the profile of "defense dependent" will be fairly small and somewhat rural. The manual references diversification approaches used in such communities. If used with care, however, they can be generally applicable to much larger places. It is important to note that some larger communities hosting significant levels of defense activities (relative to their size), such as San Antonio and San Diego, are also working to reduce their own economic dependencies on that sector.

The manual is intended to be used in preempting the effects of a dominant local employer's sudden cutback or dissolution. It surveys five separate, but complementary approaches to local economic diversification that have been developed and are used by five separate consulting organizations. Some of these techniques can be applied to mitigate disruptions in the private sector caused by a sudden entry into the community of a significant employer.

The next five chapters provide insights into the way each organization has addressed the task of matching client communities with enterprises likely to find the areas profitable places to operate. These summaries do not completely detail each organization's total body of work and philosophy; they are meant only to stimulate the reader sufficiently to pursue a program of sound and proven local economic development (via diversification). The selection of these organizations and their methodologies does not bestow OEA's certification that they are the only, or even the best, ways to diversify the economic base of a community. Rather, each chapter surveys an approach judged by OEA to represent a credible example of how to implement the task of local economic diversification.

Details on the publications referenced by superscripts in these chapters are found in Appendix A. The organizations are:

- o Battelle Columbus Laboratories
- o PHH Fantus Corporation
- o Midwest Research Institute
- o University of Arizona
- o University of Wisconsin

Readers are encouraged to learn more about the organizations and techniques described here; and to find out about other options that are not. Appendix F presents people to contact in each surveyed organization.

## **II. BATTELLE COLUMBUS LABORATORIES**

An economic diversification program can be an integral part of an overall local economic development effort. Its goal is to introduce more sources of employment into the community. With limited resources, community leaders and economic development professionals will generate these new employers in the most cost-effective way possible. This is usually accomplished by identifying and targeting activities that can successfully operate in the community. The research and planning work on which the overall development program is based must first be executed before the job base will grow.

### **Research**

Battelle Columbus Laboratories has identified several research steps necessary to prepare a community to identify new wanted and needed activities.<sup>4</sup> Battelle has organized its basic methodology in selecting enterprises for the community in a multi-staged way. Exhibit 1 presents these interrelated stages. They are a way to organize the process of reducing industry possibilities fitting the community to a manageable number to pursue as appropriate. Experience shows that the order of the first three factors presented to progressively screen out ill-suited candidates--from either the community's or the industry's point of view--works well. However, there may be sound reasons to apply these screenings in a different order.

### **MARKET AND SUPPLIER ORIENTATION**

First identify the nature of the community's market and the availability of sources of supply for industries. This simple supply/demand matrix will lead to more complex research.

### **GROWTH AND SHIFT**

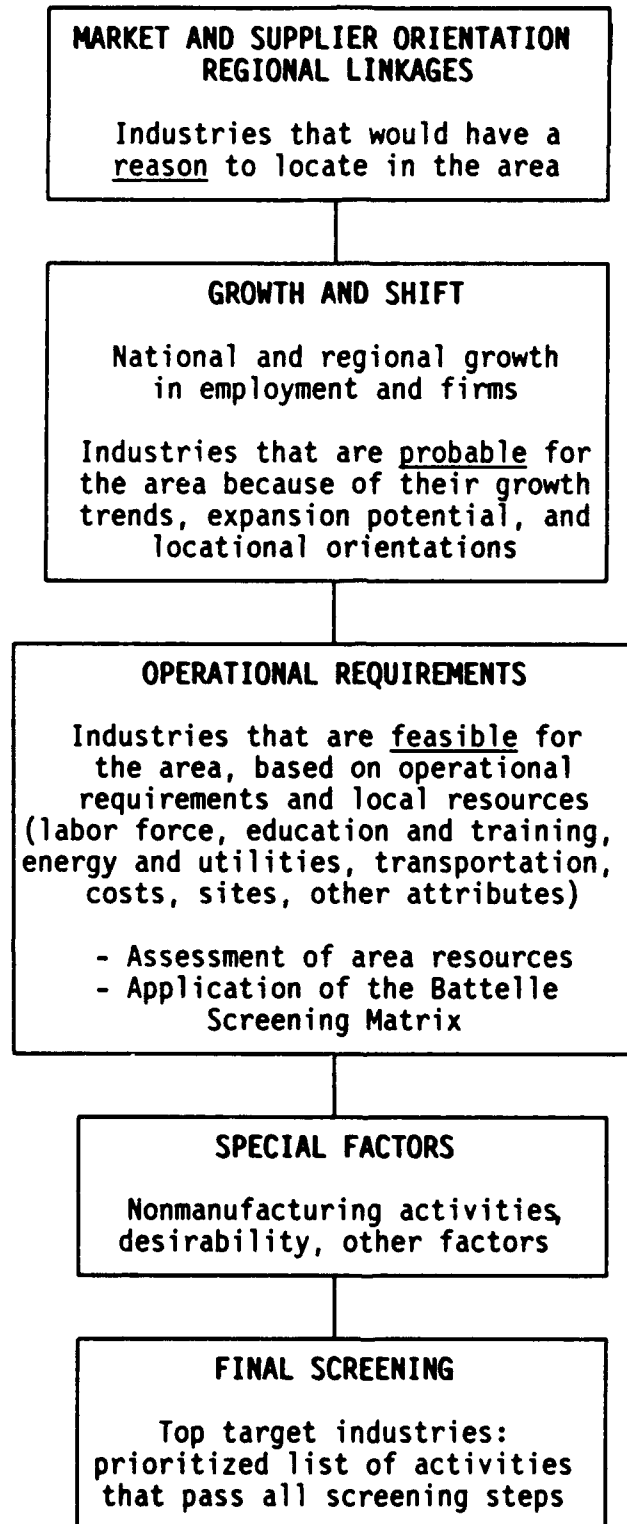
Identify industries that are growing both in terms of employment and places of operations. These are the industries that more often establish or relocate new plants.

### **OPERATIONAL REQUIREMENTS**

Identify the industries' requirements for labor, utilities, transportation, natural resources, etc. to more closely match them with the community's existing or potential assets. This survey is somewhat complex, and a way to manage it is described in the next section.

### **SPECIAL FACTORS**

The community may possess some unusual characteristics such as historical fame, a rare natural resource, or an institution of excellence. Special attributes might be interpreted in the initial screenings as limits on the community's appeal when in fact they can help focus it. However, communities showing these



FLOW OF STEPS IN THE TARGET INDUSTRY SCREENING PROCESS

factors must still perform the other exercises to uncover hidden assets and liabilities important to other less obvious industries.

### **FINAL SCREENING**

A short list is made of those industries remaining after the process outlined above. Once this is done, organizing a program to market the community to the targeted industry groups and to individual companies within them can begin.

### **Battelle Screening Matrix**

After paring down the possibilities by use of the regional linkages and growth potential screens, the more complex Battelle Screening Matrix can be used to further refine the list.<sup>5</sup> This process highlights the surviving industries that are feasible for the area by matching their operational requirements with the relative presence of these requirements in the community. Battelle's data base contains 451 (4 digit SIC) manufacturing industries and works best when analyzing them. It also contains 150 (4 digit SIC) services industries that can be analyzed.

Exhibit 2 is presented for reference in both this (its left side) and the next section (the balance). It offers a sample community assessment of all 451 manufacturing industries available.

Battelle has devised 50 criteria useful for industrial locators when gauging a community's assets. Since many of them only subtly differ and are used when searching to meet specialized needs, the nature and number of them in Exhibit 2 is typical. Those actually selected will represent the criteria best reflecting the community's existing and potential assets. (Of course, a "negative" sort could also be made by listing only those criteria definitely not met by the community.) The surviving industries are put into four groups of equal sizes (quartiles), starting with those that exhibit the least to those with the greatest uses so that the relative instances of their needs can be arrayed. Therefore, the location of an industry within the quartiles may change as its affinities among the various criteria are ranked.

As an example, the matrix shows that people holding at least a college degree (Criterion 12) comprise only 3 percent or less of the employees in one-half (Quartile II) of all industries covered by Battelle. It also shows that no industry's work force is made up of more than 9 percent (Quartile IV) college or advanced degree graduates. If the relative number of highly educated people in the test community were low, then this information would point its users toward industries located in the Screening Matrix's data base in Quartiles I and II and perhaps some from Quartile III.

EXAMPLE OF THE "BRIDGE" BETWEEN LOCAL EVALUATIONS AND THE SCREENING

Criteria	Major Group--Quartile*				The Bridge	
	I	II	III	IV	Evaluation	Value for Acceptance/Pass
1. Percent Shipments by Rail	2	9	26	88	Good	15% or less
2. Percent Shipments by Highway	70	80	90	100	Very Good+	Over 70%
3. Percent Shipments by Air	0.2	0.5	1.5	32	Adequate+	5% or less
4. Percent Shipments within 100 Miles	19	29	45	99	Good	Less than 20%
5. Percent Shipments 100 to 300 Miles	27	33	42	78	Very Good	Less than 33%
6. Percent Shipments over 1,000 Miles	6	11	16	54	Very Good to Excellent	Over 15%
7. Average Employment Size	41	70	138	2,700	Very Good+	80 or more
8. Percent of Staff--Professional, Technical	3	5	8	31	Good	12% or less
9. Percent of Staff--Craftsmen (Skilled)	14	18	21	34	Adequate	19% or less
10. Percent of Staff--Operatives (Semi-Skilled)	39	49	56	72	Excellent	56% or less
11. Percent of Staff with 13-15 Years of Education	17	21	27	33	Adequate to Good	27% or less
12. Percent of Staff with 16 or More Years of Education	2	3	4	9	Adequate	6% or less
13. Electricity Consumed (1,000 kWh Per Employee Per Year)	57	134	370	15,000	Very Good to Excellent	500 or less
14. Natural Gas Consumed (1,000 CF Per Employee Per Year)	28	70	250	10,000	Very Good	29 to 250
15. Water Consumed (1,000 Gallons Per Employee Per Year)	13	104	500	80,000	Good	500 or less
16. Land Requirements (Average Acres Per Establishment)	2.5	10	22	400	Very Good	5 to 50

\*Quartiles:

- I. Actual value of the 113th industry (from the lowest) when ranked from lowest to highest.
- II. Value of the 226th industry -- the modal value.
- III. Value of the 339th industry when ranked from lowest to highest.
- IV. Value of the highest ranking industry (the 451st) for each criterion.

## **Bridging Subjective and Objective Screenings**

While the most important operational needs of industries are being overlayed onto the community through the Screening Matrix process, local leaders' ideas and opinions must also be uncovered. Their personal assessments of the community's capacity and desirability to supply industries' needs can be captured and then added to the matrix as an "Evaluation" column. Providing working definitions like those below will help guide their opinion-making about each resource (responding to a "criterion") under consideration.

Poor - This rating marks the resource as unsatisfactory, and it would meet the needs of very few industries.

Adequate - Although the basic needs of some industries would be satisfied by local resources, improvement is clearly needed.

Good - The community is relatively strong in this resource, and most industries would be satisfied.

Very Good - This resource has a strong presence, and the vast majority of all industries would be well satisfied with it.

Excellent - Not only is the presence of this resource strong in the community, but its presence compares favorably with all other competing similar communities.

The final column of Exhibit 2 marks the "passing grade" that knowledgeable evaluators use to bridge the objective data compiled about each of the surviving industries with the subjective opinions about the community's resources.

Using Criterion 15, Water Consumed (1000 Gallons Per Employee Per Year), the evaluators judged the community's water resources as "Good." Tempering this opinion with actual measurements of local water capacity, they then decided that companies needing up to 500 gallons of water/employee/year (Quartiles I, II, & III) could easily be serviced. The community could not support, and therefore be attractive to, larger users of water (Quartile IV). Again, some of the lesser water users will nonetheless be eliminated from final targeting because their requirements for other resources too often exceeded the community's supply.

The final selections for targeting drawn from these iterations can then be refined finally by considering critical special factors like: 1) the community offers the nation's most inexpensive electricity, acknowledged in the bridging exercise but not realized to be a significant enough benefit to very heavy electricity users to overcome the community's other identified shortcomings for those industries; or 2) the community's reputation as a health center precludes any air or water polluting activities.



### **III. PHH FANTUS CORPORATION**

Fantus is an experienced corporate site location consultant. In the course of many such assignments, this company has constructed a massive data base about American businesses' locational preferences. This information serves as the basis for Fantus' current work in community-based strategic planning.

#### **Technical Reports**

Fantus constructs useful community-based strategies for development by integrating information from several sources. They are:

- o economic data about the community;
- o data about business site location needs;
- o analysis of successful development practices in the region and the nation;
- o interviews with knowledgeable community leaders involved in public and/or private sector enterprise.

The key directions derived from each of these sources are developed and distributed as a series of technical reports. Exhibit 3 depicts a listing of these reports, with primary inputs, as developed for the community of Waco, Texas.<sup>15</sup> The contents and utility of each report is summarized below.

#### **ECONOMIC BASE ASSESSMENT**

This report evaluates the development dynamics of the local economy by comparing the vitality of Waco's major industrial sectors to similar communities in both its substate region and in the entire state. This is very similar to the location quotient process discussed later in this manual.

#### **ASSETS AND LIABILITIES ANALYSIS**

The community's strongest attributes are identified and matched to industries that require them to operate well. The community's weakest features are also identified and analyzed to determine what efforts are appropriate to overcome, or at least lessen, their negative affect on the community's development potential. Care is also taken to eliminate industries requiring these features in full to operate. A combination of Fantus' empirical research and community leaders' subjective observations is used to rate each of these operating factors--such as manufacturing wages, utility costs, taxes, and local quality of life--as positive, neutral, or negative to the development program.

#### **CRITICAL FACTORS AND DESIRED FUTURES EVALUATION**

An assessment is made of the factors critical to the support of further development in the community. Some of them are controllable. One example of this may be a clear consensus in the community about the nature (extent, mix, and timing) of future

# THE WACO ECONOMIC DEVELOPMENT STRATEGIC PLANNING PROCESS

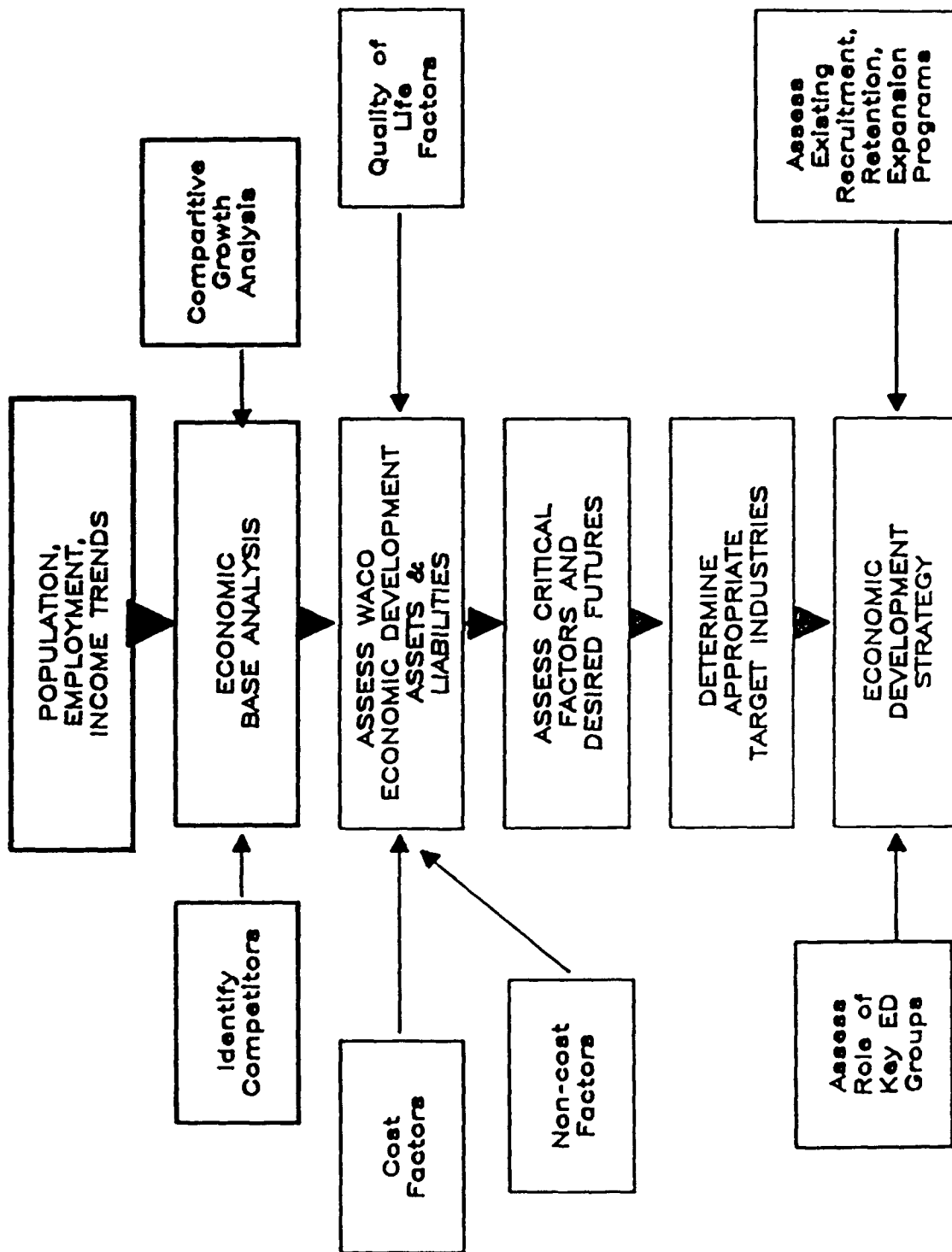


Exhibit 3

development. An uncontrollable factor may be the overall economic health of industries with a prominent establishment in the area.

#### **TARGET MARKETS ANALYSIS**

In an effort to expend limited resources most efficiently, select industries are targeted for recruitment to the area. The targets are chosen with the following features in mind:

- \* The community's strongest locational assets correspond to the primary needs of the industry.
- \* The community's weakest locational assets are not significant locational needs of the industry.
- \* The industry is expected to grow, and the growth is likely to occur in the community's region of the country.
- \* The industry is large enough so that the location of one of its enterprises to the community is a realistic prospect.
- \* The industry's effects on the community's livability is acceptable.

#### **PUBLIC/PRIVATE BUSINESS RECRUITMENT, RETENTION, AND EXPANSION**

A plan to build the local business base is critical to the development process. This plan will include detailed goals, objectives, and strategies; discussed later in this chapter.

### **The Overall Economic Development Program**

Fantus uses the analyses and technical reports to construct an overall economic development program with and for the community. General goals are designed that combine to present a statement about the desired future for the community. Typical goals are: increase the rate of employment growth; upgrade the skill mix and rates of pay of local jobs; and stimulate new small business formations.

These worthwhile but indefinite goals are then translated into more specific and usually quantitative objectives. As examples, the three overall goals mentioned above may be expressed as the following interrelated objectives: 1) increase the local job base by a net of 15 percent over the next five years; 2) add 3000 new manufacturing jobs to the community during the next three years; 3) develop a venture capital pool of \$1 million for business start-ups, and 4) establish a hi-tech business incubator within the next two years.

Fantus also rates goals and objectives by their realistic chances of accomplishment. High ratings can engender aggressive strategies describing programs that will achieve them. Goals and objectives considered to have low chances of achievement might be addressed as a substrategy of another more highly regarded initiative or programmed to be achieved in a distant future. These strategies describe just how the community's

development desires will be attained. Typical strategies are: the provision of adequate resources to effect the development program over the long term; extensive research to best refine the industries targeted for attraction; the nature of the community's marketing and public relations program; and provision for business management aid for start-up and small businesses.

### **Attracting, Retaining, and Expanding Businesses**

Fantus applies the Goals-Objectives-Strategies formula in turn to the very popular set of programs found in any effective development effort: attracting new businesses to the area; retaining businesses already there; and expanding those existing businesses when possible. Fantus then provides the final critical element to assure the most realistic and usable plan possible--the level of resources needed to establish and operate the program over a specific time. Below are a few examples of the common sense, but clearly interrelated, ideas and activities recommended to Waco:

#### **Business Attraction**

##### Objective

- Build general awareness among corporate site selection executives of Waco's locational advantages.

##### Strategy

- Adopt and sustain a promotional theme.

#### **Business Retention**

##### Objective

- Learn of possible problems of local businesses and work to resolve them before their operations are threatened.

##### Strategy

- The Chamber of Commerce Vice President for Economic Development should call on the area's larger businesses at least annually as a troubleshooter.

#### **Business Expansion**

##### Objective

- Provide business management assistance.

##### Strategy

- High level city representatives should visit the area's larger businesses at least annually to assess the need for, and offer as appropriate, added city services.

#### **Small Business Development**

In recognition of the importance of entrepreneurship and small business to job creation, Fantus also recommends that a small business development program be specified. Some recommendations about how to establish this goal are offered below.

### Objective

- Develop a local source of risk capital and assist ten emerging businesses over the next five years.

### Strategy

- Establish the Waco Capital Fund. The Fund should be capitalized at \$1,000,000 over a three-year period to provide equity, debt, and/or convertible debt risk financing.

## **IV. MIDWEST RESEARCH INSTITUTE**

### **Keys to Success**

In extensive research, MRI has identified seven key characteristics most often found in successful rural development programs.<sup>12</sup> They are presented and briefly described below as ingredients to consider for inclusion in community diversification efforts.

#### **EXISTING ASSETS**

Examine and analyze the main features of the community. They include climate, geology, demography, location, institutions, and infrastructure. Look for unusual qualities that may appeal to particular industries and other activities.

#### **VALUE ADDED TO CURRENT PRODUCTS**

These products are often natural resources such as agriculture, livestock, and extractive industries. Assess the feasibility of processing these raw products further at home instead of sending them to another community.

#### **FINANCIAL HELP**

Secure the money to build the roadways, water systems, and other infrastructure that will support new industry and population. Find and develop other sources to underwrite new and expanding businesses.

#### **EXISTING ENTERPRISES**

Offer programs to existing local businesses beyond financial support that dispense management assistance, export substitution networks, technology transfer, and specialized jobs skills training.

#### **COMMUNITY EDUCATION**

Strengthen the public school system as the primary generator of a competent work force. Involve postsecondary faculty as technical advisors to local businesses and to the overall economic development efforts as needed.

#### **CAPACITY OF LOCAL LEADERSHIP**

Assure that local leaders understand the economic development process through participation in select seminars and "hands on" activities devoted to the subject. Work with available public and professional associations promoting development concerns and techniques.

#### **CONTINUOUS PLANNING AND LONG TERM PERSPECTIVE**

Build a periodic review component into the strategic economic development planning process to ensure adjustments to it as needed. Build in the understanding that many good programs take years to develop and produce meaningful results.

Local leadership must fully understand and affect selected facets of their area if an effective economic development program is to be devised. MRI's useful listing of those facets often included in industrial site location decisions is by no means unique; there are many that are both supplementary and complementary. One state's chief financial officer offers the list below.<sup>9</sup>

1. Characteristics of the Local Workforce
2. Physical Infrastructure
3. Natural Resources
4. Education & Technology Base
5. Support for Enterprise Development
6. Quality of Life
7. Public Fiscal Management

### **Electronic Target Industry Analysis**

The target industry analysis has long been a standard tool of economic developers. All of the organizations surveyed in this manual perform such analyses to cull out from consideration those industries which will most likely have no interest in locating in a given area. With these possibilities then eliminated, community officials can focus on attracting a more manageable number of firms. The smaller the target group, the smaller the expenditure of money, time, and energy needed to broaden the community's jobs and tax bases.

Target industry analyses can be expensive and time consuming. They often cost as much as \$50,000 and more per community. They are usually generated by expert, outside consultants; the competitive selection process often adds to the time and expense of generating the analysis.

In 1988, MRI and Strategic Product Designs designed a user-friendly, IBM-compatible software package which allows a knowledgeable operator to perform a target industry analysis at a personal computer. The software makes use of government and industry data and electronically performs many of the same functions previously generated manually by professionals external to the community.

This software product permits the operator to rearrange assumptions and estimates which then quickly produce different program directions. Like other good targeting tools, it also provides complementary planning assistance to economic developers by earmarking which attributes their community lacks that are appealing to a promising prospect industry/enterprise.

The flexibility offered by this new tool can lower the cost of analyses while increasing their responsiveness as compared to more traditional methods. Like any do-it-yourself product, it must be applied thoughtfully and correctly.

## V. UNIVERSITY OF ARIZONA

Fort Huachuca is a very large Army installation (about 70,000 acres and 10,500 jobs) within the city limits of Sierra Vista, AZ. The Mayor of Sierra Vista, a retired Army officer and civil servant, asked OEA in 1987 for help in mitigating his city's substantial dependence on the fort's activities. Even though they were coexisting quite well, two interrelated circumstances motivated his request.

The first motive concerned changes in DoD's operations. A DoD budget that was no longer growing presented the possibility of cutbacks or at least significant mission changes at the fort. As proof of this reasoning, hundreds of civil servants at the fort had been recently replaced by a lesser number of contractor personnel because of Federal government cost savings moves.

The second motive was internal to the city. Community leadership had decided to expand this town of 35,000 people into a much larger city. They have been actively adding and improving the elements needed to accomplish this goal. Among these elements are: establishment of an economic development corporation; designation of a Foreign Trade Zone; and a commitment to expand a branch campus of the University of Arizona (UA).

The creation of a local economic diversification plan was endorsed as a framework to further guide the city's expansion efforts.

### Background

The University of Arizona's Economic Development Program (EDP) was engaged to perform a study of the Sierra Vista area (defined for data collection and other purposes as Cochise County) potential for developing and attracting new enterprises. EDP conducts development-oriented research for non-metropolitan areas of the state. It had already performed such services in the county.

A study advisory committee was formed to represent the various municipalities in the county, each much smaller than Sierra Vista, and the county itself. The group's population hovered around 20 and proved too unwieldy to offer the desired input. It soon ceded its oversight/representation responsibilities to a seven-member Cochise County Area Economic Diversification Group.

Although the study was repeatedly presented as county-wide in scope, municipalities farthest from Fort Huachuca remained reluctant to fully participate in it. A perceived need for



community independence was one motive for this reluctance. A second was the belief that the diversification study was only another way to take fuller advantage of the economic activity stimulated by Fort Huachuca, considered only marginally beneficial to them. EDP has also prepared a handbook based on this experience for use by other communities.<sup>2</sup>

## **Delphi Method**

UA engaged the Delphi method as the vehicle to involve directly as many informed community representatives possible. This method is characterized by a panel of experts (in this case concerning Cochise County) who respond to an iterative series of written questionnaires about the economy of their community.<sup>1</sup> Each set of questions and resulting answers are analyzed by a panel facilitator who summarizes the results to the panel members. The facilitator then uses these results to design another questionnaire with the intention of further clarifying the responses and observations of the prior one.

Capturing the experts' (community leaders) experience and guidance while fostering their ultimate ownership of the results are the most obvious benefits of this method. The method is particularly effective in creating this personal commitment by using a written, anonymous forum that encourages the maximum degree of candor and contemplation. The group's generalized discussions of each set of their responses often encourages objective reviews of participants' opinions that might be reflected in later iterations of the process.

By analyzing residents' perspectives of their community, useful insights about how others view the community will also surface. The community's "image" is one factor in its ability to successfully attract outsiders as tourists, industrial site developers, settlers, and shoppers. This knowledge will affect later choices about specific options of diversification.

Three iterations of Delphi survey/response were used in this study. The first survey was sent to about 70 people in Cochise County and in the state government. Predictably, as each new survey became more detailed and thought-provoking, the number of responses lessened. Exhibit 4 is a copy of the first Delphi survey.

## **Location Quotients**

The Delphi method is a consciously subjective look by people who cannot be completely objective about their own community and its appeal to industries with significant growth potential. The value of these biased findings can be enhanced further when overlayed on another, objective method of industrial targeting. The use of "location quotients" is such a method.

Cochise County Economic Diversification Study(Delphi Project)

## Questionnaire Number One

Introduction

Please answer the following questions as fully as possible. You are encouraged to write on this form. If your answers are too long for this form, please continue on the back of the pages. For your convenience, please feel free to utilize lists or an outline format for your answers.

If you have any questions, please do not hesitate to contact Mark Miller, the Delphi study manager. You can contact him at the University of Arizona in Tucson (1-621-1955) between the hours of 10:30 - 12:00 Tuesdays and Thursdays, or you can leave a message at this number at any time. Please feel free also to contact him at home (1-790-7818).

We hope that you will find time within the next week to complete this questionnaire. We are anxious to move this study forward in a timely fashion. Please return the questionnaire (in the self-addressed, postage paid envelope provided) to:

Mark Miller  
University of Arizona  
Economic Development Program/OALS  
845 N. Park  
Tucson, AZ 85719

You have been nominated for participation in this study because of your interest in and knowledge of county and community affairs. Please answer, where appropriate, both for Cochise County as a whole and for all specific communities in the county with which you are familiar. For all questions, please distinguish clearly between your answer for Cochise County as a whole and specific communities.

Participant's Name: \_\_\_\_\_

1. Comparative advantages or special opportunities for economic development

*The following questions concern comparative advantages for economic growth in Cochise County and its communities. Comparative advantages are those special features or attributes that set an area apart from other areas in attracting new industries, retaining existing industries, and creating local economic growth.*

- 1) In comparison with the rest of Arizona, what advantages do Cochise County and its communities have for economic development and encouraging economic growth?

Cochise County

Other Cochise County communities  
Please specify

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- 2) Which of these advantages are most promising for future economic growth in the county and communities? That is, which of these advantages could be most easily or effectively developed or encouraged to create local economic growth?

Cochise County

Other Cochise County communities  
Please specify

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- 3) How might Cochise County or its communities take fuller advantage of these comparative advantages or special opportunities? What are the impediments to taking fuller advantage of these comparative advantages/special opportunities?

Cochise County

Other Cochise County communities  
Please specify

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11. Disadvantages or barriers to economic development

*The following questions concern comparative disadvantages for economic growth in the county and its communities. Comparative disadvantages are those negative features or attributes of an area which may act as barriers to industrial development and economic growth. These barriers may be correctable or non-correctable.*

- 1) In comparison with the rest of Arizona, what disadvantages do Cochise County and its communities have which act as barriers to industrial development and economic growth?

Cochise County

Other Cochise County communities

Please specify

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- 2) Which of these barriers, in the county and its communities, could be most easily or effectively corrected? How could this be accomplished?

Cochise County

Other Cochise County communities

Please specify

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- 3) Which of these barriers, in Cochise County and its communities, cannot be easily or effectively corrected?

Cochise County

Other Cochise County communities

Please specify

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### III. Regional cooperation for economic development

*The following questions concern forms of regional cooperation to create economic development. These are means by which counties, communities, organizations, or local industries work together, to their mutual advantage, to foster local economic growth.*

- 1) Do you think that economic development efforts should be (a) left to the local communities, (b) turned over to a county-wide organization, or (c) conducted both at the local and county-wide levels? If you favor (c), a joint effort between communities and a county-wide organization, what do you think should be the role of each?
  
  
  
  
  
  
  
  
  
  
- 2) How do you think that economic development organizations should be funded? Private contributions? Tax dollars? Other?
  
  
  
  
  
  
  
  
  
  
- 3) In what ways do the communities of Cochise County cooperate today to foster local economic development? How could these communities cooperate more effectively?

#### IV. Population growth: advantages

The following questions concern advantages in attracting population growth to Cochise County and its communities. Industrial growth in a community is generally thought to encourage population growth: residents follow jobs. Alternatively, population growth may sometimes be attracted to communities with many amenities, in turn creating a demand for economic growth: residents create jobs. One example of this would be the retirement population in Cochise County, which creates a demand for shopping, restaurants, health facilities, recreational and cultural amenities, etc.

- 1) In comparison with the rest of Arizona, what are the most attractive characteristics of Cochise County and its local communities for residents? That is, what are the advantages to living in Cochise County and its communities?

Cochise County

Other Cochise County communities

Please specify

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- 2) Which of these advantages could be most easily or effectively developed to encourage more population growth?

Cochise County

Other Cochise County communities

Please specify

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V. Population growth: disadvantages/barriers

*The following questions concern comparative disadvantages for population growth in Cochise County and its communities. Again, these barriers may be correctable or non-correctable.*

- 1) What are the most important disadvantages for residents of Cochise County and its communities? That is, what are the disadvantages to living in Cochise County and its communities?

Cochise County

Other Cochise County communities  
Please specify

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- 2) Which of these disadvantages could be most easily or effectively corrected? How could this be accomplished?

Cochise County

Other Cochise County communities  
Please specify

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- 3) Which of these disadvantages cannot be easily or effectively corrected?

Cochise County

Other Cochise County communities  
Please specify

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VI. Community attitudes toward growth

*The following questions concern attitudes in Cochise County and its communities toward local efforts to encourage economic and population growth.*

- 1) What are the attitudes of Cochise County and local community governments toward local economic development efforts?

Cochise County

Other Cochise County communities

Please specify

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- 2) What are the attitudes of existing local firms toward local economic development efforts?

Cochise County

Other Cochise County communities

Please specify

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The calculation of location quotients yields a subjective comparison of a community's (in this case, county) employment "performance" to employment "performance" in other similar places. Whereas data requirements for this approach are substantial, they are not nearly as great as for other such comparative approaches. Further, calculation procedures are relatively straightforward and produced by the simple equation<sup>1</sup>

$$L.Q. = \frac{C_i/C_n}{S_i/S_n} \quad \text{where}$$

$C_i$  = employment in a four-digit SIC industry in the community;

$C_n$  = all employment in the community;

$S_i$  = employment in the same four-digit SIC industry in similar communities in the state; and

$S_n$  = all employment in similar communities in the state.

The GFRC report<sup>9</sup> presents a different method to assess the focus of diversification that is similar to the use of location quotients. An "industry screen" is used to present graphically the relative presence of industries in a community. The relevant portion of that report is presented as Appendix E.

## VI. UNIVERSITY OF WISCONSIN

The approach to economic diversification used by the University of Wisconsin-Extension (UW) was developed primarily by Professors Glen Pulver and Ron Shaffer. Like a growing number of land grant universities nationwide, UW extension service now provides aid to community strategic planners, small business managers, displaced workers, and many other residents of the state's non-metropolitan areas. UW's economic development planning approach has been successfully applied in other states as well.

The UW model<sup>3</sup> guides communities to perform both subjective, qualitative self-analysis and objective, quantitative analysis. This is followed with technical assistance to the community leadership. UW's intensive review of economic diversification programs has yielded useful insights into the key ingredients needed to produce success.

### Preparation

Critical to the process of economic diversification is the community's collective will to **change**. If the community's leadership has little interest in acquiring more jobs, jobs that are less subject to external influence, or higher average incomes, they will avoid the rigors of a local economic development program.

UW engages in a consensus-building exercise with a slightly different tint than the Delphi method used by UA in Cochise County. It is called the "Community Economic Analysis". The first step is the formation of an informal community economic leadership group including representatives of business associations, industrial development, banks, local government, and other interested citizens. The program consists of a careful review of national, state, and local economic trends including those industries now growing in establishments and employment. The local community's recent economic performance is then examined using a number of regional economic analysis tools.<sup>3</sup> General approaches to development are then reviewed.

The second step in "Community Economic Analysis" is the formulation of specific community economic development strategies including action steps and assignment of specific responsibilities for implementation. The County Cooperative Extension Agent then begins work with local leaders to pursue the strategies selected. This is a continuing process which may take several years to accomplish. The burden of leadership, choice, and action remains with the community.

This work is followed by the use of the "Community Economic Preparedness Index" (see Exhibit 5) which provides a format that impartially leads its readers to conclusions about the essentials of successful local economic development. Because of this, using the Index offers the simultaneous benefit of expanding the base of economic development education before the local debate and resulting development plan are started.

Finally, and most obviously, the Index (or any similar Preparedness survey) inventories and highlights the community's readiness for development. Broad understanding of the current weaknesses and strengths of the community and its development institutions is critical to identifying diversification opportunities and formulating realistic plans for future action.

## **Economic Analysis**

A more objective and verifiable survey of the community is a needed complement to the team-building Preparedness work. But there are (at least) four caveats to keep in mind when undertaking such analyses.<sup>3</sup>

First - No single "fact" represented by a number generated by analysis provides an all-pervasive answer. Data only indicate static facts. Their causes must be understood before they can help lead to an effective course of action.

Second - Make comparisons of data generated for the community to similar communities. This gives a range of what is "normal."

Third - Research and analyze trends over time for the most accurate picture.

Fourth - Use several data sources. Differences among them will generate original, current research to discover the true facts.

Communities are driven by both local and outside forces. Diversification efforts should attend to each set. Key factors to discover, therefore, are how much of the community's wealth is spent in other communities ("leaks") and how much of outsiders' spending occurs locally.

Using information about leakages is only one of several interconnected ways to determine which commercial/industrial activities are over-, under-, or properly represented in the community. A second technique is to determine the local "multiplier effect" of these activities, both in terms of employment and income. These two measures are clearly related but not the same. Multipliers simply indicate how much of the money held by local residents is respent ("multiplied") at home to create further jobs and income. Multipliers are, therefore, also indicators of the local availability of things to buy.

# Community Economic Preparedness Index



*Measuring community efforts to improve employment and income*

Produced jointly by the Wisconsin Department of Development and University of Wisconsin-Extension

## Instructions

The purpose of the community economic preparedness index is to help citizens analyze and plan action to improve their community's opportunity to increase employment and income. The index is a list of activities and conditions that can be controlled by the community.

To complete the form, fill in the "yes" or "no" blanks for each item, then rank the category as a whole. If you do not know, mark "?". Items marked "no" and categories rated "fair" or "minimal" indicate areas in need of improvement. The index was designed for communities of between 1,000 and 20,000 people in size.

### 1. The community has an economic development plan:

Yes No ?

- ☐ ☐ ☐ a. Prepared and reviewed by a citizens committee.
- ☐ ☐ ☐ b. Formally adopted by the village board/city council within the past three years.
- ☐ ☐ ☐ c. Includes a complete analysis of sources of employment.
- ☐ ☐ ☐ d. The plan encourages economic development.

Circle one: *Excellent Good Fair Minimal*

### 2. The community has a land use plan and zoning ordinance that delineates industrial and commercial areas.

Yes No ?

- ☐ ☐ ☐ a. It has been written or formally reviewed within the past three years.
- ☐ ☐ ☐ b. Provision is made for expansion of commercial and industrial sites.

Circle one: *Excellent Good Fair Minimal*

### 3. The community has an industrial development corporation.

Yes No ?

- ☐ ☐ ☐ a. There is an organized industrial development prospect contact team.
- ☐ ☐ ☐ b. An annual update of industrial development information has been filed with the Wisconsin Dept. of Development.
- ☐ ☐ ☐ c. The corporation has financed an industrial prospect search outside of the community within the past two years.
- \_\_\_\_\_ d. Budget (amount).
- \_\_\_\_\_ e. Membership (number).

Circle one: *Excellent Good Fair Minimal*

### 4. The community has a contact system for inventorying vacant and available commercial buildings.

Yes No ?

- ☐ ☐ ☐ a. A list of current vacancies can be provided within two days.
- ☐ ☐ ☐ b. The list includes square footage, photographs, property description, and ownership.

Circle one: *Excellent Good Fair Minimal*

**5. The community has an industrial site (with vacancies)**

Yes No ?

- ☐ ☐ ☐ a. It owns or has an option on a site of 15 acres or more.
- ☐ ☐ ☐ b. There is an adequate water line (10" or more) to the property line.
- ☐ ☐ ☐ c. There are heavy duty streets not through a residential area to the boundary.
- ☐ ☐ ☐ d. There is an adequate sewer line (12" or more) to the property line.
- ☐ ☐ ☐ e. A firm site price has been set.
- ☐ ☐ ☐ f. A soil test boring has been made.
- ☐ ☐ ☐ g. A copy of site covenants and restrictions is readily available.
- ☐ ☐ ☐ h. A topographical map is readily available, including site layout.

Circle one: *Excellent Good Fair Minimal*

**6. The community has a vacant shell building on an industrial site.**

Yes No ?

- ☐ ☐ ☐ a. Minimum of 10,000 sq. ft.
- ☐ ☐ ☐ b. Floor to ceiling clearance, 16 ft.
- ☐ ☐ ☐ c. It is expandable.
- ☐ ☐ ☐ d. Layout and photo are available.
- ☐ ☐ ☐ e. An annual update has been filed with the Wisconsin Dept. of Development.

Circle one: *Excellent Good Fair Minimal*

**7. The community has done a labor survey within the past three years.**

Yes No ?

- ☐ ☐ ☐ a. It includes the number of people by employer.
- ☐ ☐ ☐ b. It includes a wage rate and fringe benefit analysis.
- ☐ ☐ ☐ c. It identifies which labor unions are present in the community.
- ☐ ☐ ☐ d. It describes absenteeism rates.
- ☐ ☐ ☐ e. It identifies work force participation rates.
- ☐ ☐ ☐ f. It indicates the distance people will travel to work.
- ☐ ☐ ☐ g. The community is organized to do a special labor survey on request.

Circle one: *Excellent Good Fair Minimal*

**8. The community has a promotional brochure.**

Yes No ?

- ☐ ☐ ☐ a. It describes the recreational opportunities.
- ☐ ☐ ☐ b. It provides a description of services (e.g. retail, restaurants).
- ☐ ☐ ☐ c. It describes the quality of public services (e.g. schools, hospitals).
- ☐ ☐ ☐ d. It describes private housing quality.
- ☐ ☐ ☐ e. It describes major employers (industry, commerce, government).
- ☐ ☐ ☐ f. It has been revised within the past two years.

Circle one: *Excellent Good Fair Minimal*

## OPPORTUNITIES FOR DEVELOPMENT:



**Help Businesses Grow**



**Help Businesses Start**

9. The community has completed and distributed a "Community Economic Profile" within the past year. (Example: those done by the Wisconsin Dept. of Development, public utilities, etc.)

Yes No ?

☐ ☐ ☐

Circle one: *Excellent Good Fair Minimal*

10. The local government helps business acquire financing.

Yes No ?

☐ ☐ ☐

a. Has passed an industrial revenue bond interest resolution.

☐ ☐ ☐

b. Has created a tax incremental financing (TIF) district.

☐ ☐ ☐

c. Has encouraged the formation of a small business development organization.

Circle one: *Excellent Good Fair Minimal*

11. Local banks support community economic development.

Yes No ?

☐ ☐ ☐

a. Local banks have utilized a correspondent bank relationship in financing a local project within the past two years.

☐ ☐ ☐

b. Local banks have actively solicited commercial and industrial loans within the past year.

☐ ☐ ☐

c. Local banks have made Small Business Administration guaranteed loans within the past two years.

☐ ☐ ☐

d. Bank officials are active in community economic development organizations.

Circle one: *Excellent Good Fair Minimal*

12. The community has a program to encourage existing businesses (commercial and industrial).

Yes No ?

☐ ☐ ☐

a. At least three adult courses in business management were taught last year.

☐ ☐ ☐

b. The Chamber of Commerce, business organization, or industrial group makes regular visits to business managers.

☐ ☐ ☐

c. An annual Industrial and commercial recognition event (exhibit, field day) is held.

Circle one: *Excellent Good Fair Minimal*

13. The community has a chamber of commerce or business organization working on retail sales programs and commercial development.

Yes No ?

☐ ☐ ☐

a. Has a paid (chamber of commerce, business organization) executive at least on a part-time basis.

☐ ☐ ☐

b. Has a tourist promotion committee.

c. Number of members (number).

d. Budget (figure).

Circle one: *Excellent Good Fair Minimal*

14. The community has completed a trade area survey/analysis within the past three years.

Yes No ?

☐ ☐ ☐

a. The findings have been reported to local businesses.

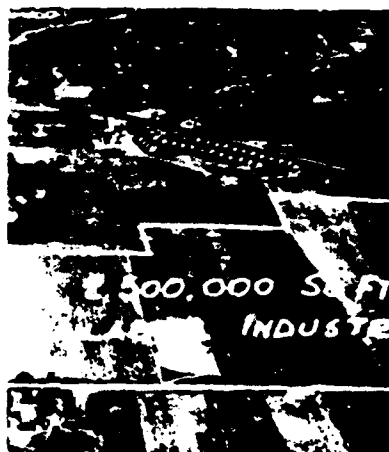
☐ ☐ ☐

b. The findings have been communicated to business prospects outside of the community.

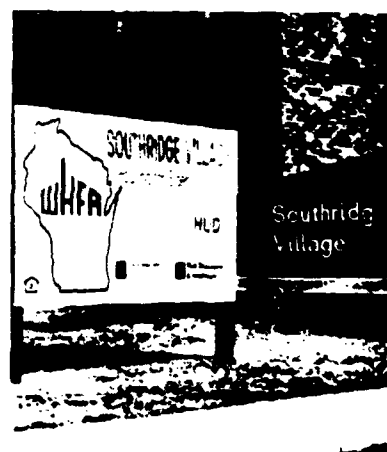
Circle one: *Excellent Good Fair Minimal*



Capture Dollars Locally



Attract New Industry



Increase Aids Received

**15. The community has an active downtown program.**

Yes No ?

- ☐ ☐ ☐ a. It has a regular calendar of main street promotion activity (e.g. monthly trade days).
- ☐ ☐ ☐ b. Has completed a downtown physical renovation within the past 10 years.
- ☐ ☐ ☐ c. Merchants are following the plan when renovating.
- ☐ ☐ ☐ d. Has a uniform billboard and street sign ordinance.
- ☐ ☐ ☐ e. Has improved main street lighting, parking, and traffic flow within the past 10 years.
- \_\_\_\_\_ f. Number of downtown business area public parking spaces (number).

Circle one: *Excellent Good Fair Minimal*

**16. The community has a published directory of:**

Yes No ?

- ☐ ☐ ☐ a. Restaurants
- ☐ ☐ ☐ b. Motels and hotels
- ☐ ☐ ☐ c. Recreational facilities

Circle one: *Excellent Good Fair Minimal*

**17. The community has at least one major community event each year (one which has an impact broader than the community, attracting at minimum people from neighboring communities, e.g. pageants, festivals, contests, derbies, fairs).**

List the events: \_\_\_\_\_

Circle one: *Excellent Good Fair Minimal*

**18. The public services of the community are adequate.**

Yes No ?

- ☐ ☐ ☐ a. The municipal fire service is Grade 6, 7 or 8 or better (rated in past 5 years).
- ☐ ☐ ☐ b. Has capacity for environmentally sound solid waste management in landfill sites for at least five years.

(continued to next column)

- ☐ ☐ ☐ c. Meets all Dept. of Natural Resources sewer discharge requirements or has initiated the facilities planning process.
- ☐ ☐ ☐ d. Has excess water capacity equivalent to 5% of its current population
- ☐ ☐ ☐ e. Has an organized plan for next five years for capital improvements on streets.
- ☐ ☐ ☐ f. Has an airport with a 3,900-foot paved runway or better.

Circle one: *Excellent Good Fair Minimal*

**19. The community has submitted proposals for state and/or federal funding for development programs.**

Yes No ?

- ☐ ☐ ☐ a. For housing.
- ☐ ☐ ☐ b. For two of the following: sewer, water, streets, fire protection, waste management.
- ☐ ☐ ☐ c. For one of the following: airport, health protection, public parks, community building.

Circle one: *Excellent Good Fair Minimal*

**20. The community presents a positive living environment.**

Yes No ?

- ☐ ☐ ☐ a. There is an organized senior citizen transportation system.
- ☐ ☐ ☐ b. There is a senior citizen public housing development.
- ☐ ☐ ☐ c. There are 10 acres or more of public parks per 1,000 people.
- ☐ ☐ ☐ d. There are fewer than 1,000 people per physician.
- ☐ ☐ ☐ e. The percentage of low and moderate income households with housing assistance needs is below 12.5%.
- ☐ ☐ ☐ f. All educational systems are adequate.
- \_\_\_\_\_ g. How many youth organizations are there functioning in the community? (number)

Circle one: *Excellent Good Fair Minimal*

**LUXX** University of Wisconsin-Extension, Cooperative Extension Service. Charles F. Koval, director in cooperation with the U.S. Department of Agriculture and Wisconsin counties publishes this information to further the purpose of the May 8 and June 30, 1914 Acts of Congress and provides equal opportunities in employment and programming including Title IX requirements.

Produced by the Department of Agricultural Journalism, University of Wisconsin-Madison

**13100 COMMUNITY ECONOMIC PREPAREDNESS INDEX**

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Phone 608-262-3346

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Estimating and using location quotients was discussed in the last chapter. As a reminder, location quotients compare the percent of local employment in one industry with the industry's share of all employment in the country (or in an agglomeration of similar communities). In this way, commercial/industrial activities are ranked by their local representation.

The population-to-employment ratio is the final method this manual mentions to help find the relative presence of business activities. Simply calculate the local ratio for a well represented industry and compare it to that in similar communities. If the ratio for an industry is higher than in other places, i.e., 60 residents:1 automobile salesperson locally vs. 40:1 in many similar places, there may be room locally for more establishments and employees in that industry.

## **Strategies**

A specific discussion of the most popular strategies to employ in diversifying a local economy has been saved for last. Most of the suggested strategies and supportive details presented below have been published by Pulver<sup>7</sup>. Some of them were identified earlier in the manual as key characteristics of successful programs. This somewhat different presentation should not confuse the reader, since a means to an end in one set of community circumstances may be an appropriate end unto itself in another.

### **IMPROVE PROFITABILITY OF EXISTING FIRMS**

This strategy is often called "improving the local business climate." It consists of such varied programs and other aids to the business community as:

- o business management education;
- o one-stop shopping for municipal permits, information, etc.;
- o adequate debt and equity capital;
- o technology transfer and commercialization aid;
- o vocational and technical education;
- o modern communications technology;
- o efficient public infrastructure (water, recreation, etc.);
- o effective network for the business community; and
- o joint purchasing of business supplies.

### **IMPROVE THE RETENTION OF LOCAL DOLLARS**

The vitality of a community improves as the amount (multiplier) of, and speed (velocity) that, residents spend their money locally increases. Ways to keep more of the wealth at home are:

- o fill the needs for new and expanded trade and services;
- o renew commercial shopping districts, including the supporting elements of access and parking;
- o generate a listing of local enterprises for individuals and businesses;
- o encourage joint promotional activities; and
- o identify underrepresented industries and fill the market gap.



### **ATTRACT NEW BASIC EMPLOYERS**

New basic employers in the community are exceptionally beneficial because, by their very nature, they bring in wealth from outside. This approach has long been the focus of economic development programs, although it is often slow to result in increased employment and public revenues. Like other diversification strategies, it must be supported by an analysis of the types of industries that would find the community a productive place to locate. Activities/facilities from all levels of government can also be desirable targets. Primary ways to attract basic industries are:

- o prepare industrial/commercial/office sites;
- o enhance the community's image through special events, public services, retail sections, and other amenities;
- o provide open links to all sources of education: vocational, primary and secondary, university, and research;
- o provide competitive sources of capital and other financial incentives; and
- o maintain a development team of local businesspeople to find, encourage, and host industrial prospects.

### **ENCOURAGE BUSINESS FORMATION**

Markets for new businesses can be identified through economic analyses, observed shifts in consumer preferences, introduction of new enterprises needing suppliers. Ways to accomplish this strategy are similar to the approach of supporting existing businesses but with differences in emphasis. Educational and other forms of business management assistance will be geared to the particular needs of start-up enterprises and novice managers. Financial sources will focus on plants and equipment instead of the needs of mature enterprises such as research, marketing, and inventory.

### **INCREASE AID RECEIVED FROM BROADER GOVERNMENTS**

Many programs of government aid are delivered only at the request of the eligible recipients. Communities, and the people who live within them, must be careful to apply correctly for those kinds of aid for which they qualify. They support activities ranging from grants to increase waste water treatment (allowing the introduction of expanded industry) to social welfare payments (increasing disposable incomes and consumerism). All are important to community health.

### **Illustration of the Approach**

UW Cooperative Extension Service, campus-based specialists, and the County Agent assisted the people of the village of Spencer, WI, in 1987 to plot a strategy for development. The UW team provided much of the analytical context and framed the decisionmaking system. But it was the Spencer leadership who generated the actual direction to pursue.

"Spencer Community Economic Analysis"<sup>8</sup> is the result of this cooperative planning effort. The analytical context was provided by a variety of presentations of the factors affecting the Spencer economy. Some examples are:

U.S. Economy

- U.S. Industrial Employment (1979 and 1980)
- U.S. Gross National Product (Goods vs. Services)
- Projected High Growth Industries (1984-1995)

Wisconsin Economy

- Wisconsin Industrial Employment (1970 and 1980)
- Wisconsin Employment and Projections (1970, 1980, and 1990)
- Wisconsin Personal Income (1979 and 1984)

Spencer Economy Comparisons

- Detailed Age by Sex vs. Wisconsin, Marathon County, and Surrounding Towns
- Population Comparison vs. Surrounding Towns
- Household Incomes vs. Wisconsin and Surrounding Towns
- Industry of Employed Persons vs. Wisconsin and Surrounding Towns

The relevant data about the Spencer economy are contained in tables listing the location quotients and the population/employment ratios of 40 Spencer-based industrial sectors compared with those of the surrounding towns.

While the economic analyses were being performed, community representatives completed the Community Economic Preparedness Index to discover the town's strengths and weaknesses. They were also asked to identify all problems and opportunities affecting increased jobs and income in Spencer. The leading opportunities were discussed among this group and placed into priorities of importance through a weighting process. In this way, specific economic development projects--establish a downtown development plan and program, conduct a trade area survey, update the municipal sewage treatment plant, etc.--to support the industrial targeting and diversification process were devised and agreed upon.

UW's Spencer report also includes two important and relevant appendices. The first is an annotated listing of sources of business development financial aid. The second is a description of techniques for revitalizing downtown districts in small towns.

The key to the effectiveness of this approach is the follow up delivery of technical assistance to the community. The County Agent takes that lead and is supported by specialists based at UW.

## Appendix A

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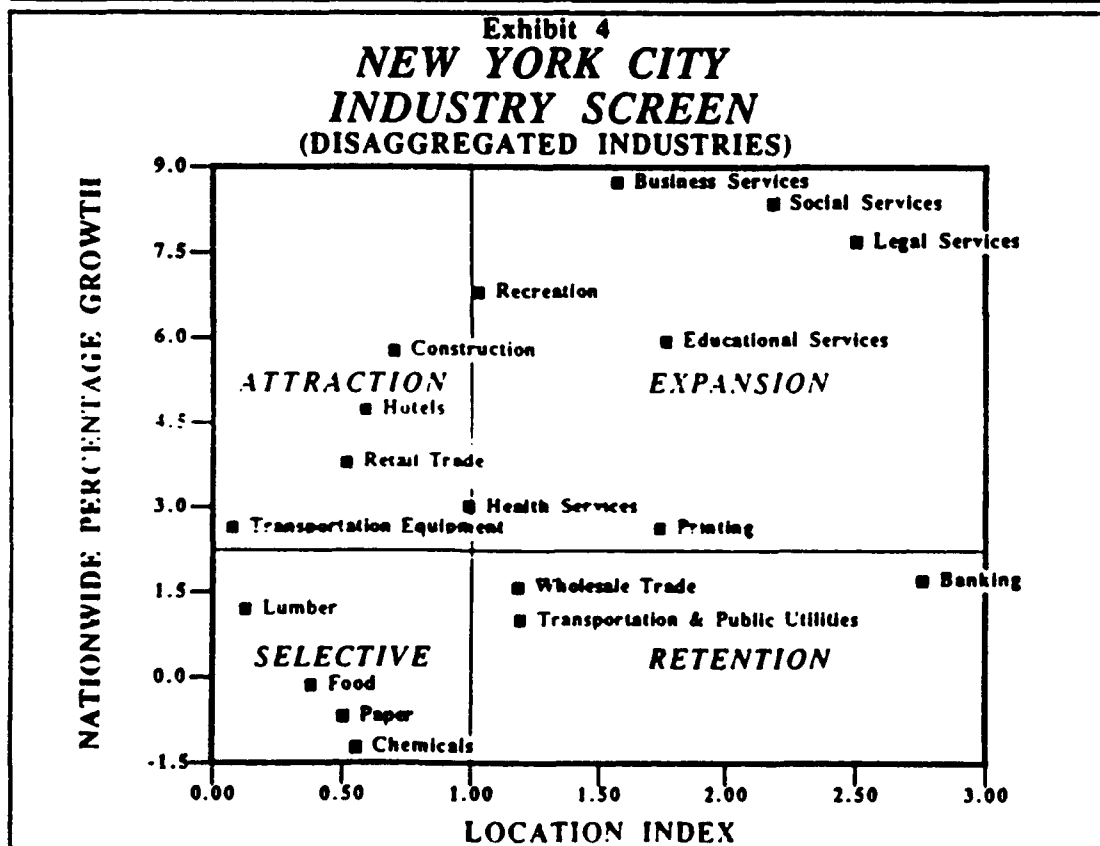
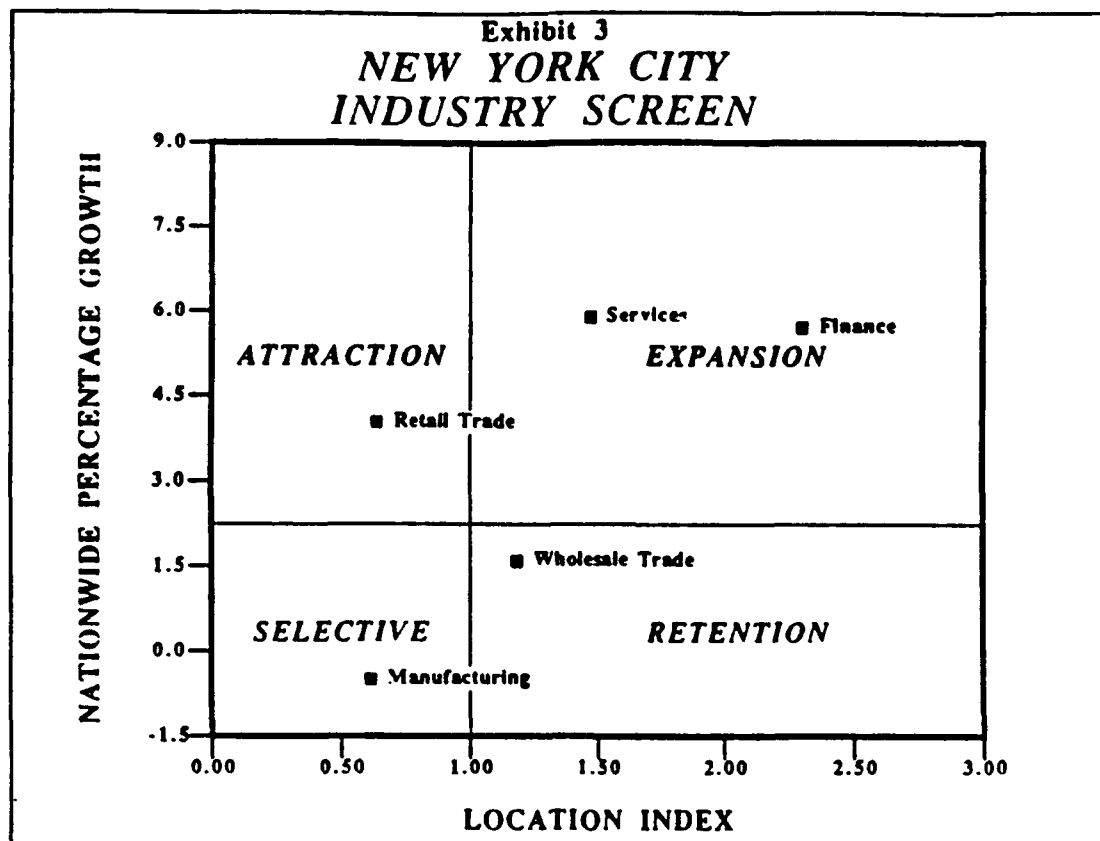
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## INDUSTRY SCREENS

One approach to evaluating the kind of industries worth attracting is to develop industry screens. The example discussed here is for New York City, but it can easily be adapted for other jurisdictions. Exhibits 3 and 4 are "industry screen" charts constructed from standard payroll employment statistics published by the Bureau of Labor Statistics. Exhibit 3 is an industry screen for a few broad industrial categories in New York City; Exhibit 4 is the same analysis using a more detailed industrial breakdown. (An even more detailed breakdown is possible, if necessary, since the Bureau of Labor Statistics publishes employment data for over 100 distinct industries.)

The screens work as follows. Each exhibit has four segments. Industries that are potential targets for this jurisdiction are placed in these segments based on two major factors.

- o The local job advantage index (along the horizontal axis) measures the concentration of jobs in the jurisdiction in any particular industry compared to the nationwide concentration of jobs in that industry. Specifically, this is the percentage that a particular industry's jobs in New York City is of total New York City jobs divided by the percentage that a particular industry's jobs in the nation is of total jobs nationwide. The closer to the right of the chart any industry is placed, the more concentrated it is in New York City relative to the nation. For example, New York City has 2.4 times the national average of its jobs concentrated in finance. On the other hand, it has only slightly more than half (.6) the national average of concentration in manufacturing.
- o A measure of nationwide employment growth (along the vertical axis) measures the annual percentage employment growth of industries nationwide. The higher on the chart an industry is placed, the faster it is growing in the nation. For



Note: Certain industries are off the scale of this chart. For example, brokerage industries Location Index equals 9.9 and growth equals 7.6.



example, jobs in finance are growing at just over 5% per year, while those in manufacturing have been declining at a rate of about 1% a year.

The charts are divided into four segments. The lines that divide the charts into quadrants have been placed as follows: The vertical line has been placed at the index value of 1.0. That means that any industry that falls to the left of the vertical line is less concentrated in New York City than in the nation; any industry that falls to the right of the line is more concentrated. The horizontal line has been placed at 2.3%, which is the Wharton Econometrics projected nationwide employment growth for the next few years. Thus, any industry that falls below the horizontal line is projected to grow at a slower pace than the average for all jobs nationwide, and any industry that falls above the line is projected to grow at a faster pace than the average for all jobs nationwide.

If an industry falls in an upper-left quadrant, it is a candidate for attraction. Industries in this quadrant are growing quickly in the nation, but in this example New York City has not yet gotten its share. Thus, programs should be targeted to attract these high growth industries.

Moving clockwise around the charts, if an industry falls in an upper-right quadrant, it is a candidate for expansion. Industries in this quadrant are not only growing quickly in the nation, but New York City has already established a dominant position in them. Thus, programs should be targeted to help expand the number of jobs these industries have in this jurisdiction.

If an industry falls in a lower-right quadrant, it is a candidate for retention. Industries in this quadrant are growing slowly in the nation, but New York City has already established a dominant position in them. While such industries are not likely to help expand the employment base, they should not be abandoned. Thus, strategies should be developed to ensure the retention of these jobs.

If an industry falls in a lower-left quadrant, it should be selectively targeted for any program. Industries in this quadrant are not only growing slowly (or even declining) in the nation, they are relatively less important in New York City.

Sometimes the reasons for attracting industry, however, are not related solely to economic trends. For instance, durable manufacturing would fall into the selective quadrant, as would manufacturing overall. Yet, many manufacturing industries provide jobs for unskilled workers, which makes it a perfect match for many of New York City's unemployed. Also, a jurisdiction needs to be concerned about diversification and not putting all of its eggs in a few baskets.

This screen is not meant to dispose of all the questions concerning which industries a jurisdiction should pursue; it merely provides some guidance as to where to begin. It forces state and local elected officials to think through their whole economic development process and establish priorities--something many do not now do. This, or some similar screening device, combined with other elements already discussed, began to provide necessary guidelines.

Source: GOVERNMENT INC.: Creating Accountability for Economic Development Programs, Edward V. Regan.

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